

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Davison Township	County Genesee
Fiscal Year End June 30, 2007	Opinion Date October 2, 2007	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

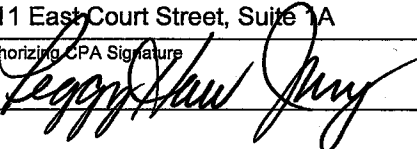
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Plante & Moran, PLLC		Telephone Number (810) 767-5350	
Street Address 111 East Court Street, Suite 1A		City Flint	State MI
Zip 48502			
Authorizing CPA Signature 	Printed Name Peggy Haw Jury, CPA, CFE	License Number 1101009025	

Davison Township
Genesee County, Michigan

Financial Report
June 30, 2007

	<u>Page</u>
Introductory Section	
List of Elected Officials	I
Financial Section	
Report Letter.....	2
Management’s Discussion and Analysis	3-6
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8-9
Fund Financial Statements:	
Balance Sheet Governmental Fund	10
Reconciliation of the Balance Sheet to the Statement of Net Assets	11
Statement of Revenue, Expenditures, and Changes in Fund Balance – Governmental Funds	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	13
Statement of Net Assets – Proprietary Funds.....	14
Statement of Revenue, Expenses, and Changes in Net Assets – Proprietary Funds	15
Statement of Cash Flows – Proprietary Funds.....	16
Notes to the Basic Financial Statements.....	17-34
Required Supplementary Information Section:	
Budgetary Comparison Schedule –General Fund.....	35

Introductory Section

Davison Township

List of Elected Officials June 30, 2007

Kurt Soper	Supervisor
Patrick R. Miller	Treasurer
Karen Miller	Clerk
Timothy W. Elkins	Trustee
Matthew D. Karr	Trustee

Financial Section



Plante & Moran, PLLC

Suite 1A

111 E. Court St.

Flint, MI 48502

Tel: 810.767.5350

Fax: 810.767.8150

plantemoran.com

Independent Auditor's Report

The Honorable Members
of the Township Board
Davison Township
Genesee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Davison Township, Michigan (Township) as of and for the year ended June 30, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Davison Township, Michigan at June 30, 2007, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Davison Township's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Plante & Moran, PLLC

October 2, 2007

Management's Discussion and Analysis

Davison Township

Management's Discussion and Analysis

This section of the Davison Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Township's financial statements, which follow this section.

Financial Highlights

- The Township's Total Net Assets are \$25.65 million. Unrestricted net assets were \$12.3 million.
- During the year, the Township's governmental expenses were \$1,325,014 less than the \$6,151,805 generated in taxes and other revenues for governmental programs. Capital grants of \$687,449 were utilized to purchase new infrastructure not shown as a governmental expense.
- General fund expenditures exceeded revenue by \$70,038.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

Financial Analysis of the Township as a Whole

Net assets

The Township's governmental activities net assets are \$13.9 million. The unrestricted governmental activities net assets are \$8.6 million. Business-type activities net assets are \$11.7 million with \$7.9 million being invested in capital assets net of related debt.

Governmental Activities

The Township's Governmental revenues were \$6.2 million this year. Property taxes were \$1.2 million or 20% of the total revenues. The Township's governmental revenues in total increased by approximately \$660 thousand. This increase is a result of the following: \$388,720 for a new road special assessment, \$232,000 for grant revenue for a new trail, \$150,000 increase in property taxes and police assessment revenue, offset by a \$36,000 decrease in state shared revenue. The Township's total governmental expenses increased approximately \$230 thousand.

Business-Type Activities

Operating revenues of the Township's business-type activities increased approximately \$91 thousand from the prior year of \$2,487,911 to the current year total of \$2,579,732. Operating expenses decreased by approximately \$880 thousand. The major factors contributing to the expense decrease were the following items incurred in the previous year that were not necessary again in the current year: fitting and video taping of sewer and water lines, assessing the system, and making the necessary repairs identified in the system assessment. The net change from non-operating activities increased from an overall increase of \$489,236 to an overall increase of \$1,069,837, due to the increase in capital contributions which include sewer and water lines donated by developers.

Davison Township's Net Assets

	Government Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 9,051,078	\$ 9,045,606	\$ 5,703,886	\$ 6,322,847	\$14,754,964	\$15,368,453
Capital assets	5,150,036	3,899,407	8,063,947	6,972,215	13,213,983	10,871,622
Total assets	<u>\$14,201,114</u>	<u>\$12,945,013</u>	<u>\$13,767,833</u>	<u>\$13,295,062</u>	<u>\$27,968,947</u>	<u>\$26,240,075</u>
Long-term liabilities						
outstanding	\$ -	\$ -	\$ 1,321,981	\$ 837,018	\$ 1,321,981	\$ 837,018
Other liabilities	226,980	295,893	768,100	888,367	995,080	1,184,260
Total liabilities	<u>\$ 226,980</u>	<u>\$ 295,893</u>	<u>\$2,090,081</u>	<u>\$ 1,725,835</u>	<u>\$ 2,317,061</u>	<u>\$ 2,021,278</u>
Net assets:						
Invested in capital assets, net of related debt	\$5,150,036	\$ 3,899,407	\$ 7,908,947	\$ 6,662,215	\$13,058,983	\$ 10,561,622
Restricted	260,504	242,048	-	-	260,504	242,048
Unrestricted	8,563,594	8,507,665	3,768,805	4,907,462	12,332,399	13,415,127
Total net assets	<u>\$13,974,134</u>	<u>\$12,649,120</u>	<u>\$11,677,752</u>	<u>\$11,569,677</u>	<u>\$25,651,886</u>	<u>\$24,218,797</u>

Davison Township's Changes in Net Assets

	Government Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,251,123	\$ 1,146,440	\$ 2,579,732	\$ 2,487,911	\$3,830,855	\$ 3,634,351
Operating grants and contributions	123,343	59,474	-	-	123,343	59,474
Capital grants and contributions	687,449	352,947	701,735	245,690	1,389,184	598,637
General revenues:						
Property taxes	1,242,181	1,147,693	-	-	1,242,181	1,147,693
Grants and contributions not restricted to specific programs	1,285,405	1,322,303	-	-	1,285,405	1,322,303
Other	1,562,304	1,462,887	357,028	1,945,706	1,819,915	
Total revenues	<u>6,151,805</u>	<u>5,491,744</u>	<u>3,664,869</u>	<u>3,090,629</u>	<u>9,816,673</u>	<u>8,582,373</u>
Expenses:						
Legislative	74,262	89,271	-	-	74,262	89,271
General government	1,138,301	1,118,926	-	-	1,138,301	1,118,926
Public works	985,695	924,641	-	-	985,695	924,641
Public safety	2,628,533	2,463,258	-	-	2,628,533	2,463,258
Water and sewer	-	-	3,556,794	4,444,094	3,556,794	4,444,094
Total expenses	<u>4,826,791</u>	<u>4,596,096</u>	<u>3,556,794</u>	<u>4,444,094</u>	<u>8,383,585</u>	<u>9,040,190</u>

Davison Township's Changes in Net Assets (continued)

	Government Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Increase (Decrease) in net assets	1,325,014	895,648	108,075	(1,353,465)	1,433,089	(457,817)
Net assets – July 1, 2006	12,649,120	11,753,472	11,569,677	12,923,142	24,218,797	24,676,614
Net assets - June 30, 2007	<u>\$13,974,134</u>	<u>\$12,649,120</u>	<u>\$11,677,752</u>	<u>\$11,569,677</u>	<u>\$25,651,886</u>	<u>\$24,218,797</u>

Financial Analysis of the Township's Funds

As the Township completed the year, its General Fund reported a fund balance of \$7.8 million. This was an decrease of \$70,000 from the prior year.

Capital Assets

At the end of 2007, the Township had invested approximately \$13 million in capital assets, net of related debt.

Davison Township Capital Assets (net of depreciation)

	Government Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 851,150	\$ 851,150	\$ -	\$ -	\$ 851,150	\$ 851,150
Construction in progress	-	-	900,000	-	900,000	-
Buildings and system Improvements other than buildings	520,957	469,984	40,924	43,244	561,881	513,228
Machinery and equipment	47,245	56,104	-	-	47,245	56,104
Infrastructure	307,585	306,112	73,006	91,007	380,591	397,119
	3,423,099	2,216,057	7,050,017	6,837,964	10,473,116	9,054,021
Total	<u>\$5,150,036</u>	<u>\$3,899,407</u>	<u>\$8,063,947</u>	<u>\$6,972,215</u>	<u>\$13,213,983</u>	<u>\$10,871,622</u>

Long-term Debt

At the end of the current fiscal year, Davison Township had total debt outstanding of \$155,000. Of this amount, \$155,000 comprises debt backed by the full faith and credit of the government.

Davison Township's Outstanding Debt General Obligation

	Government Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General obligation bonds	\$ -0-	\$ -0-	\$155,000	\$310,000	\$155,000	\$310,000

Limitations on Debt

The State limits the amount of general obligation debt the Township can issue to 10% of the assessed value of all taxable property within the Township's corporate limits. Our legal debt limit is \$6.5 million. The Township's water and sewer debt is exempted from consideration in the 10% limit computation.

Contacting the Township's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Davison Township Clerk's Department.

Basic Financial Statements

Government-wide Financial Statements

Davison Township

Statement of Net Assets June 30, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 556,535	\$ 1,870,223	\$ 2,426,758
Investments	6,823,022	3,212,773	10,035,795
Receivables:			
Accounts	6,052	253,155	259,207
Accrued interest receivable	15,155	14,835	29,990
Special assessments	984,020	-	984,020
Water and sewer tap-ins	-	69,938	69,938
Unbilled receivable	-	441,134	441,134
Due from other governments	278,886	-	278,886
Internal balances	319,922	(319,922)	-
Prepaid expenses	67,486	-	67,486
Restricted cash and cash equivalents	-	161,750	161,750
Capital assets			
Assets not subject to depreciation	851,150	900,000	1,751,150
Asset subject to depreciation	4,298,886	7,163,947	11,462,833
Total assets	14,201,114	13,767,833	27,968,947
Liabilities			
Accounts payable	152,752	411,431	564,183
Deposits	49,628	8,991	58,619
Due to other governments	-	344,678	344,678
Accrued and other liabilities	24,600	-	24,600
Noncurrent liabilities:			
Due within one year	-	155,000	155,000
Due in more than one year:			
Contractor advances		1,169,981	1,169,981
Total liabilities	226,980	2,090,081	2,317,061
Net Assets			
Invested in capital assets-Net of related debt	5,150,036	7,908,947	13,058,983
Restricted for:			
Disaster relief	1,740	-	1,740
Solid waste disposal	189,514	-	189,514
Lighting districts	69,250	-	69,250
Unrestricted	8,563,594	3,768,805	12,332,399
Total net assets	\$ 13,974,134	\$ 11,677,752	\$ 25,651,886

Davison Township

Functions\Programs	Program revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 1,138,301	\$ 366,647	\$ 75,051
Legislative	74,262	-	-
Public safety	2,628,533	266,837	48,292
Public works	985,695	617,639	-
Total governmental activities	4,826,791	1,251,123	123,343
Business-type activities			
Water and sewer	3,556,794	2,579,732	-
Total business-type activities	3,556,794	2,579,732	-
Total primary government	\$ 8,383,585	\$ 3,830,855	\$ 123,343
General revenues:			
Property taxes			
State shared revenue			
Investment earnings			
Franchise fees			
Police millage assessment			
Gain on sale of capital assets			
Miscellaneous			
Total general revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - Ending of year			

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets				
Capital Grants and Contributions	Primary Government			Total
	Governmental Activities	Business-type Activities		
\$ 232,589	\$ (464,014)	\$ -		\$ (464,014)
-	(74,262)	-		(74,262)
-	(2,313,404)	-		(2,313,404)
454,860	86,804	-		86,804
687,449	(2,764,876)	-		(2,764,876)
701,735	-	(275,327)		(275,327)
701,735	-	(275,327)		(275,327)
\$ 1,389,184	(2,764,876)	(275,327)		(3,040,203)
	1,242,181	-		1,242,181
	1,285,405	-		1,285,405
	319,013	383,402		702,415
	217,017	-		217,017
	1,014,513	-		1,014,513
	7,139	-		7,139
	4,622	-		4,622
	4,089,890	383,402		4,473,292
	1,325,014	108,075		1,433,089
	12,649,120	11,569,677		24,218,797
	\$ 13,974,134	\$ 11,677,752		\$ 25,651,886

Fund Financial Statements

Davison Township

Governmental Fund - General Fund Balance Sheet June 30, 2007

Assets

Cash and cash equivalents	\$ 556,535
Investments	6,823,022
Receivables:	
Accounts	6,052
Special assessments	984,020
Accrued interest	15,155
Due from other governments	278,886
Due from other funds	319,922
Prepaid costs	67,486
	<hr/>
Total assets	\$ 9,051,078

Liabilities and Fund Balances

Liabilities

Accounts payable	\$ 152,752
Deposits	49,628
Accrued salaries and wages	24,600
Deferred revenue	984,020
	<hr/>
Total liabilities	1,211,000

Fund Balance

Reserved for:	
Prepays	67,486
Disasters	1,740
Solid waste disposal	189,514
Lighting districts	69,250
Unreserved:	
Designated for subsequent year's expenditures	170,333
Undesignated	7,341,755
	<hr/>
Total fund balance	7,840,078
	<hr/>
Total liabilities and fund balance	\$ 9,051,078

Davison Township

Governmental Fund - Reconciliation of the Balance Sheet to the Statement of Net Assets Year Ended June 30, 2007

Fund balance reported in governmental funds	\$ 7,840,078
---	--------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	5,150,036
--	-----------

Special assessments receivable are expected to be collected over several years and are not available to pay for current expenditures	<u>984,020</u>
--	----------------

Net Assets - Governmental Activities	<u><u>\$ 13,974,134</u></u>
--------------------------------------	-----------------------------

Davison Township

Statement of Revenue, Expenditures, and Changes in Fund Balance Governmental Fund - General Fund Year Ended June 30, 2007

Revenue

Property taxes	\$ 1,242,181
Licenses and permits	111,254
Intergovernmental:	
Federal grants	339,489
State-shared revenue and grants	1,289,331
Local donations	67,646
Charges for services	346,199
Fines	84,817
Interest	319,013
Special assessments	1,944,724
Miscellaneous	262,727
	<hr/>
Total revenue	6,007,381

Expenditures

Current

Legislative:	
Township board	74,262
General government:	
General government	685,558
Supervisor	136,290
Clerk	209,309
Treasurer	119,104
Township hall and grounds	158,399
Assessing department	149,433
Public safety:	
Police	2,100,886
Fire	286,071
Building inspection	258,873
Public works	1,899,234
	<hr/>
Total expenditures	6,077,419

Net Change in Fund Balance (70,038)

Fund Balance - Beginning of year 7,910,116

Fund balance - End of year \$ 7,840,078

Davison Township

Governmental Fund - Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Fund - General Fund to the Statement of Activities Year Ended June 30, 2007

Net change in fund balance - General Fund \$ (70,038)

Amounts reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation:

Capital Outlay	1,576,835
Depreciation expense	(326,206)

Revenues in the statement of activities that do not provided current financial resources are not reported as revenues in the funds.	<u>144,423</u>
---	----------------

Change in net assets of governmental activities	<u><u>\$ 1,325,014</u></u>
---	----------------------------

Davison Township

Proprietary Fund - Sewer and Water Fund Statement of Net Assets June 30, 2007

Assets

Current assets:

Cash and cash equivalents	\$ 1,870,223
Investments	3,212,773
Receivables:	
Accounts	253,155
Accrued interest receivable	14,835
Tap-in receivables - current	24,460
Unbilled fees receivable	441,134

Total current assets 5,816,580

Noncurrent assets:

Restricted cash and cash equivalents	161,750
Tap in receivables - noncurrent	45,478
Capital assets not depreciated	900,000
Capital assets-net of accumulated depreciation	7,163,947

Total noncurrent assets 8,271,175

Total assets 14,087,755

Liabilities

Current liabilities:

Accounts payable	411,431
Deposits	8,991
Due to other governmental units	344,678
Due to other funds	319,922
Current portion of Long-term debt	155,000

Total current liabilities 1,240,022

Noncurrent liabilities:

Contractor's advances	1,169,981
-----------------------	-----------

Total liabilities 2,410,003

Net Assets

Investment in capital assets- Net of related debt	7,908,947
Unrestricted	3,768,805

Total net assets \$ 11,677,752

See notes to financial statements.

Davison Township

Proprietary Fund - Sewer and Water Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

Operating Revenue

Charges for services	\$ 2,520,543
Water meters	50,578
Miscellaneous revenue	8,611
	<hr/>
Total operating revenue	2,579,732

Operating Expenses

Personnel services	452,177
Sewer and water usage and billing fees	1,944,219
Insurance	6,871
Utilities	183,517
Maintenance and repair	544,336
Depreciation	361,637
Miscellaneous	48,737
	<hr/>
Total operating expenses	3,541,494

Operating loss (961,762)

Nonoperating Revenues (Expenses)

Interest income	383,402
Interest expense and fiscal charges	(15,300)
	<hr/>

Loss before contributions (593,660)

Capital contributions 701,735

Change in Net Assets 108,075

Net Assets - Beginning of year 11,569,677

Net Assets - End of year \$ 11,677,752

Davison Township

Statement of Cash Flows Proprietary Fund - Sewer and Water Fund Year Ended June 30, 2007

Cash Flows from Operating Activities

Receipts from customers	\$ 2,148,642
Payment for interfund services and reimbursements	(533,067)
Payments to suppliers and employees	(2,804,266)
Net cash used in operating activities	<u>(1,188,691)</u>

Cash Flows from Capital and Related Financing Activities

Interest expense and fiscal charges	(15,300)
Payments on construction advances liability	(29,205)
Payments on long term debt	(155,000)
Purchase of capital assets	(536,201)
Capital contributions	701,735
Payments received on tap-ins	7,011
Net cash used in capital and related financing activities	<u>(26,960)</u>

Cash Flows from Investing Activities

Sale of investments	2,491,739
Interest on tap-ins	383,402
Net cash provided by investing activities	<u>2,875,141</u>

Net Increase in Cash and Cash Equivalents

1,659,490

Cash and Cash Equivalents - Beginning of year

372,483

Cash and Cash Equivalents - End of year

\$ 2,031,973

Balance Sheet Classification of Cash and Cash Equivalents

Cash and cash equivalents	\$ 1,870,223
Restricted cash and cash equivalents	161,750
Total cash and cash equivalents	<u><u>\$ 2,031,973</u></u>

Reconciliation of Operating Loss to Net

Cash Used in Operating Activities

Operating loss	\$ (961,762)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	361,637
Change in assets and liabilities:	
Decrease in accounts receivable	(118,306)
Decrease in accounts payable	(76,586)
Decrease in deposits	(291,681)
Increase in due to other funds	<u>(101,993)</u>

Notes to Basic Financial Statements

I. Summary of significant accounting policies

A. Financial reporting entity

The accounting reporting of Davison Township conforms to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Township had no component units at June 30, 2007. The following is a summary of the significant accounting policies used by Davison Township.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds and proprietary funds.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as they are both measurable and available. Revenue is considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

I. Summary of Significant Accounting Policies (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

Property taxes, licenses, state revenue sharing, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

The government reports the following major proprietary fund:

The Water Supply and Sewer Disposal System Enterprise Fund is maintained for the operations of the water distribution system and sewage pumping and collection systems.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Township has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish *operating* revenue and expenses from *non-operating* items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

I. Summary of Significant Accounting Policies (Continued)

D. Assets, liabilities, and net assets or equity

1. Deposits

Cash deposits are carried at cost consisting of checking accounts, certificates of deposits, and other readily usable cash funds. The carrying value of deposits is separately displayed on the balance sheet as "cash and cash equivalents." For purpose of the Water and Sewer Fund Statement of Cash Flows, a cash and cash equivalent is defined as any liquid investment with a maturity of ninety days or less at the time of purchase.

2. Investments

Investments for the Township are stated at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

3. Receivables and payables

In general, outstanding balances between funds are reported as "due to/from other funds", activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade, notes, contracts, and property tax receivables are shown net of an estimated allowance for uncollectibles.

4. Restricted assets

Restricted assets in the Sewer and Water Enterprise fund consist of monies held for payment of long-term debt.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

I. Summary of Significant Accounting Policies (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

5. Capital assets (continued)

Property, plant, and equipment of the government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	39 years
Building improvements	5-39 years
Infrastructure	15-40 years
Vehicles	5 years
Office equipment	5-7 years
Computer equipment	5 years

6. Accumulated unpaid sick and vacation pay

Accumulated unpaid sick and vacation pay are not accrued by the Township. Substantially all Township employees are paid for unused sick and vacation days annually.

7. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Property tax

Property taxes attach as an enforceable lien on property as of December 1. Taxes are levied on December 1, and are payable without penalty through February 28. The Township bills and collects its own property taxes and also collects taxes for the county and several school districts within its jurisdiction. Township property tax revenues are recognized when levied to the extent that they are measurable and available in accordance with accounting standards.

I. Summary of Significant Accounting Policies (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

9. Property tax (continued)

The taxable valuation of the Township totaled \$544,975,163 for the year ended June 30, 2007, on which taxes levied consisted of .8554 mills for general operating costs, and 1.4033 mills for police services. This resulted in \$469,124 for operating and \$769,629 for police services. These amounts are recognized in the General fund. The millage for police services was renewed May 15, 2001 for a period of 10 years, 2001 to 2010.

10. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

II. Stewardship, Compliance, and Accountability

Budgetary information

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General Fund. Informational summaries of projected revenues and expenditures are provided for the Water and Sewer Enterprise Fund.
2. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted on a departmental (activity) basis for the General Fund through passage of a resolution and in accordance with Public Act 621 of 1978 of the State of Michigan.
4. The Supervisor or his designee is authorized to transfer budgeted amounts within General Fund departmental appropriation accounts; however, any revisions that alter the total expenditures of any department must be approved by the Township Board.
5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
6. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

II. Stewardship, Compliance, and Accountability (Continued)**Budgetary information (Continued)**

7. Budget appropriations lapse at year-end except for approved contracts and certain federal grants, which are appropriated on a contract (grant) length basis. A reconciliation of the budgetary comparison schedule to the fund based statement of changes in fund balance is as follows:

	<u>Total Revenue</u>	<u>Total Expenditures</u>
General Fund:		
Balance per budgetary		
Comparison schedules	\$122,722	\$5,860,652
Grant funded expenditures	216,767	216,767
	<hr/>	<hr/>
Balance per fund based statements	\$339,489	\$6,077,419

8. The original budget was not amended during the year.

III. Detailed Notes on All Funds**A. Deposits and investments**

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorized local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks, commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated seven banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

III. Detailed Notes on All Funds (Continued)**A. Deposits and investments (Continued)**

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$11,338,056 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Repurchase agreements	\$879,473	Counterparty

Interest rate risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, investments consisted of an overnight repurchase agreement of \$879,473.

B. Receivables

Receivables as of year end for the Township's General Fund and Sewer and Water Enterprise Fund in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Sewer and Water Fund</u>
Governmental activities:		
Receivables:		
Interest and dividends	\$ 15,155	\$ 14,835
Accounts	6,052	253,155
Special assessment	984,020	-
Tap-ins	-	69,938
Intergovernmental	278,886	-
Unbilled receivable	-	441,134
Gross receivables	1,284,113	779,062
Less: allowance for uncollectibles	-	-
Net total receivables	<u>\$1,284,113</u>	<u>\$779,062</u>

Davison Township

Notes to Basic Financial Statements June 30, 2007

III. Detailed Notes on All Funds (Continued)

B. Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special Assessments not yet due (General Fund)	<u>\$984,020</u>	<u>\$ -0-</u>

C. Capital assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 851,150	\$ -	\$ -	\$ 851,150
Capital assets, being depreciated:				
Buildings and improvements	1,045,907	85,247	-	1,131,154
Improvements other than buildings	148,281	-	-	148,281
Infrastructure	2,404,973	1,399,552	-	3,804,525
Furniture and equipment	749,460	92,036	-	841,496
Total capital assets being depreciated	4,348,621	1,576,835	-	5,925,456
Less accumulated depreciation for:				
Buildings	(575,923)	(34,274)	-	(610,197)
Improvements other than buildings	(92,177)	(8,859)	-	(101,036)
Infrastructure	(188,916)	(192,510)	-	(381,426)
Furniture and equipment	(443,348)	(90,563)	-	(533,911)
Total accumulated depreciation	(1,300,364)	(326,206)	-	(1,626,570)
Total capital assets, being depreciated, net	3,048,257	1,250,629	-	4,298,886
Governmental activities capital assets, net	<u>\$ 3,899,407</u>	<u>\$ 1,250,629</u>	<u>\$ -</u>	<u>\$ 5,150,036</u>

Davison Township

Notes to Basic Financial Statements June 30, 2007

III. Detailed Notes on All Funds (continued)

C. Capital assets (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 900,000	\$ -	\$ 900,000
Capital assets, being depreciated:				
Buildings and improvements	110,417	-	-	110,417
Investment in sewer and water system	15,523,240	553,370	-	16,076,610
Furniture and equipment	172,405	-	-	172,405
Total capital assets, being depreciated	15,806,062	553,370	-	16,359,432
Less accumulated depreciation for:				
Buildings and improvements	(67,172)	(2,321)	-	(69,493)
Investment in sewer and water system	(8,685,278)	(341,315)	-	(9,026,593)
Furniture and equipment	(81,397)	(18,002)	-	(99,399)
Total accumulated depreciation	(8,833,847)	(361,638)	-	(9,195,485)
Total capital assets, being depreciated, net	6,972,215	191,733	-	7,163,947
Business-type activities capital assets, net	<u>\$ 6,972,215</u>	<u>\$ 1,094,732</u>	<u>\$ -</u>	<u>\$ 8,063,947</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 79,842
Public works	192,510
Public safety	<u>53,854</u>
Total depreciation expense – governmental activities	<u>\$326,206</u>
Business-type activities:	
Water and sewer	<u>\$361,637</u>

Davison Township

Notes to Basic Financial Statements June 30, 2007

III. Detailed Notes on All Funds (Continued)

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2007 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water and Sewer	<u>\$319,922</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

E. Long-term debt

The Township issues bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Contractual agreements and installment purchase agreements are also general obligations of the government.

The following is a summary of Business Type long-term debt transactions of the Township for the year ended June 30, 2007:

	<u>Final Payment Due</u>	<u>Interest Rate or Range</u>	<u>Balance at June 30, 2006</u>	<u>Issuances (Retirements) During Year</u>	<u>Balance at June 30, 2007</u>	<u>Due within One Year</u>
Business - Type Activities:						
Enterprise Fund – contracts payable:						
Sanitary Sewer District #1						
Township Lateral	2008	5.0	\$ 80,000	(\$ 40,000)	\$40,000	\$ 40,000
Sanitary Sewer District #1						
Davison Township Sub-trunk	2008	4.0-4.9	200,000	(100,000)	100,000	100,000
Genesee County Water Supply						
System #2 Series I	2008	5.0	30,000	(15,000)	15,000	15,000
Total Business – Type Activities			<u>\$310,000</u>	<u>(\$155,000)</u>	<u>\$155,000</u>	<u>\$155,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End June 30,</u>	<u>Business Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 155,000	\$ 6,750

III. Detailed Notes on All Funds (Continued)

E. Long-term debt (Continued)

Act 359, Public Acts of State 1947, as amended, provides that net indebtedness of municipalities cannot exceed 10% of the assessed real and personal property in the Township. As of June 30, 2007, Davison Township has not incurred any indebtedness, which would be limited under Act 359. The Township's existing general long-term obligation bonds and other debt are specifically exempted from consideration in the 10% limit computation.

Deposits payable:

A \$20,000 cash bond was received from Cardinal Industries in June 1987 to be used to maintain a holding pond should Cardinal Industries (or a later owner) default on the maintenance of the holding pond. The holding pond was required before Cardinal Industries could construct a modular apartment complex. The bond would be refunded if the holding pond was no longer needed due to the construction of drains in the area in which the modular apartment complex is located. The cash bond was invested and, per the agreement with Cardinal Industries, the Township General Fund keeps all interest earned on the investment. The deposit is recorded as a liability in the general fund.

The Township has also received deposits from other developers to ensure completion of various developments within the township. These other deposits held by the General Fund and the Water and Sewer Enterprise Fund equal \$38,619.

IV. Joint Ventures

- I. In September 1979, Davison Township entered into a joint venture with the City of Davison to create a Senior Citizen's Authority. Richfield Township entered the joint venture effective July 1, 1996 and gave notice by June 30, 2007 that it plans to withdraw from the joint venture. The purpose of the Authority is to provide facilities for recreation and activities for senior citizens residing in the City and Townships. The Authority is governed by a seven-member board appointed by the governing bodies of the City and Townships. The Board of the Authority is required to submit an annual operating budget to the governing body of each municipality for approval. The agreement provides that the allocation will be 1/3 of the net expenses split equally between the three municipalities. Beginning in March 2007, a grant was received from Genesee County to be used for the Authority's operations. The grant requires a local match, therefore the units will no longer cover one-third of the costs, but will pay its portion of the local match to the Authority.

During the year ended June 30, 2007, the Township's contribution to the Senior Authority was \$49,040. At June 30, 2007, the Township had a receivable of \$20,677 from the Authority for cash advances to meet operating needs.

All parties have contributed to the cost of the current activity center and share in its ownership on a percentage basis. The majority of the Senior Citizens Authority's capital assets were purchased with federal funds so any income from the sale of these assets would revert to the federal agency.

IV. Joint Ventures (Continued)

I. (continued)

Davison Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at authority headquarters.

2. In January 1972, Davison Township entered into a joint venture with the City of Davison and Richfield Township to create the Davison-Richfield Area Fire Authority. The purpose of the Authority is to provide uniform and orderly control of fire protection, fire department practices and organizations, and financing within the territorial limits of the three municipalities. The Authority is governed by a seven-member board appointed by the governing bodies of the city and townships. The agreement calls for each municipality to pay for costs of the Authority by a charge for each fire run to a point within its jurisdictional boundary.

During the year ended June 30, 2007, the Township was billed \$286,071 by the Authority. At year end, the Township owed \$74,492 to the Authority for fire run services.

Davison Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at authority headquarters.

V. Other Information

Pension benefit plan

The Township has two pension plans, one for union police officers and one for all other Township employees. Benefit provisions and contribution obligations have been established by the Township Board.

a. Union police officers' pension plan:

(I) Plan description:

The Township police officers participate in the Municipal Employees Retirement System of Michigan (MERS) defined benefit plan which is an agent multiple-employer public employee retirement system (PERS). The Township has no fiduciary responsibility for the plan. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

V. Other Information (Continued)

Pension benefit plan (continued)

a. Union police officers' pension plan: – (continued)

(1) Plan description: (continued)

Police officers are eligible for full retirement benefits upon completion of 25 years of service, at age 50 or age 60 with six years service. Straight life pension for police officers is calculated as follows: credited service at time of termination multiplied by 2.5% of the member's final average compensation (3 highest consecutive years within the last 10 years of employment), up to a maximum of 80% of final average compensation.

Membership in the plan at December 31, 2006, the date of the latest actuarial valuation, is comprised of 14 active members, 1 inactive member, and 3 retirees.

(2) Funding policy:

The plan provides that the employer/employees contribute amounts necessary to fund the actuarially determined benefits. Police employees are required to deposit 5.00% of all monetary compensation, including overtime. The Township makes employer contributions in accordance with funding requirements determined by MERS' actuary. The Township's current rate is 12.85% of annual covered payroll for police.

Actuarial assumptions:

Valuation date	December 31, 2006
Actuarial cost method	Entry age normal
Amortization method	Level percent
Remaining amortization period	25 years - open
Asset valuation method	10 year smoothed market
Investment rate of return	8.0%
Projected salary increases	4.5% - 12.90%
Includes inflation at	4.5%

(3) Net pension obligation

	<u>Fiscal Year Ended June 30:</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 646,720	\$ 76,652	\$ 100,477
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

V. Other Information (Continued)

Pension benefit plan (continued)

a. Union police officers' pension plan: – (continued)

(3) Net pension obligation (continued)

	Actuarial Valuation as of December 31:		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial value of assets	\$1,460,600	\$1,544,868	\$1,868,551
Actuarial accrued liability (entry age)	\$2,014,809	\$2,156,446	\$2,720,600
Unfunded AAL	\$ (554,209)	\$ (611,578)	\$ (852,049)
Funded ratio	72.5%	71.6%	68.7%
Covered payroll	\$ 616,153	\$ 624,151	\$ 807,711
UALL as a percentage of covered payroll	90.0%	97.9%	105.5%

b. Non-union pension plan:

(1) Plan description:

The Township's non-union employees and police lieutenant employees participate as a group in the Municipal Employees Retirement System of Michigan (MERS) defined benefit plan which is an agent multiple-employer public employee retirement system (PERS). The plan was established December 1, 2004. The Township has no fiduciary responsibility for the plan. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Employees are eligible for full retirement benefits upon age 60 with eight years service. Straight life pension for the non-union employees and police lieutenants is calculated as follows: credited service at time of termination multiplied by 2.25% of the member's final average compensation (5 highest consecutive years within the last 10 years of employment), up to a maximum of 80% of final average compensation.

Membership in the plan at December 31, 2006, the date of the latest actuarial valuation, is comprised of 26 active members and two retirees. The plan was established December 1, 2004 to replace the previous defined contribution plan.

V. Other Information (Continued)

Pension benefit plan (continued)

b. Non-union pension plan: (continued)

(2) Funding policy:

The plan provides that the employer contribute amounts necessary to fund the actuarially determined benefits. The Township makes employer contributions in accordance with funding requirements determined by MERS' actuary. The Township's current rate is 4.13% of annual covered payroll.

Actuarial assumptions:

Valuation date	December 31, 2006
Actuarial cost method	Entry age normal
Amortization method	Level percent
Remaining amortization period	29 years - open
Asset valuation method	5 year smoothed market
Investment rate of return	8.0%
Projected salary increases	4.5% - 12.90%
Includes inflation at	4.5%

(3) Net pension obligation

	<u>Fiscal Year Ended June 30:</u>	
	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 49,455	\$ 107,581
Percentage of APC contributed	100%	100%
Net pension obligation	-	-

	<u>Actuarial Valuation as of December 31:</u>	
	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$2,024,776	\$2,138,961
Actuarial accrued liability (entry age)	\$2,187,842	\$3,474,097
Unfunded AAL	\$ (163,066)	\$(1,335,136)
Funded ratio	92.5%	61.6%
Covered payroll	\$1,094,767	\$1,132,911
UALL as a percentage of covered payroll	14.9%	117.9%

V. Other Information (Continued)

Pension benefit plan (continued)

c. Post employment benefits other than pension:

The Township provides health benefits to certain employees after they retire or leave office. The ordinance provides that health, medical, and dental care benefits will be provided to eligible retirees if similar benefits are not available to the retiree. All employees and elected or appointed officials, except for those covered under a bargaining unit, age 55 or older with 20 years of continuous service are eligible.

The cost of the benefits is paid entirely by the Township as the costs are incurred. At year end, 10 retirees were eligible to receive these benefits. For the year, \$109,098 was expended in the General Fund to provide these benefits.

VI. Summary Disclosure of Contingent Liabilities

A. Contingent liabilities:

The Township participates in the Department of Housing and Urban Development Community Block Grant Program and other federal grant programs. These programs are subject to compliance audit by the granting agencies. The amount, if any, of expenditures which may be subsequently disallowed by the granting agency cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

B. Tap-in fees advanced from developers:

The Township has a construction advance liability for monies advanced by developers for construction of water or sewer lines benefiting their properties. A liability in the amount of \$1,169,981 exists at June 30, 2007. The tap-in fee, which would normally be charged to the contractor for projects serviced, is applied to the advance. Also, 100% of tap-ins to other land owners in the developer's area and 75% of the tap-in fee charged to anyone who taps into the constructed line outside of the stated development area will be applied against this amount advanced and paid back to the developer. Payments based on the current activity are remitted to the developer semi-annually. After a specified time, the developers will not be entitled to any further use of their advance regardless of whether or not they have used the full amount. Developers' interests in the various tap-in contracts still open at June 30, 2007 will expire during the period of March 2013 to January 15, 2027. At the expiration date of the agreement, any remaining construction advance liability will be reclassified to net investment in capital assets.

Davison Township

Notes to Basic Financial Statements June 30, 2007

VII. Segment Information for Enterprise Funds

The Township maintains an Enterprise Fund which provides water and sewer services. Segment information for the year ended June 30, 2007, is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise Fund</u>
Operating revenue	\$1,337,065	\$ 1,242,667	\$ 2,579,732
Depreciation	140,608	221,029	361,637
Operating loss	(170,304)	(791,458)	(961,762)
Non-operating revenues/expenses	158,284	209,818	368,102
Capital contributions	507,095	194,640	701,735
Net income (loss)	495,075	(387,000)	108,075
Property, plant, and equipment:			
Additions	1,020,610	432,760	1,453,370
Current assets	2,898,803	2,917,777	5,816,580
Current liabilities	588,613	651,409	1,240,022
Net working capital	2,310,190	2,266,368	4,576,558
Other liabilities	672,820	497,161	1,169,981
Net assets	6,511,307	5,166,445	11,677,752
Total assets	7,230,754	6,857,001	14,087,755
Total bonds outstanding	15,000	140,000	155,000

VIII. Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omission, and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for coverage of all claims except employee unemployment benefits. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Township pays unemployment claims on a reimbursement basis.

IX. Building Department Revenues and Expenses

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The Act allows for monitoring these funds in a separate activity center within the General Fund and reserving General Fund fund balance for the excess of building departments revenues over expenditures since adoption of the Act. A summary of the current year activity and the cumulative surplus or shortfall generated since July 1, 2000 is as follows:

Shortfall at July 1, 2006	\$ (164,610)
Current year building department revenue	102,194
Less: expenditures	<u>(258,873)</u>
Cumulative shortfall at June 30, 2007	<u><u>\$(321,289)</u></u>

X. Commitments

Genesee County has committed to construct a water supply system southwestern loop within the Township boundaries. The Township has contracted with Genesee County to pay the portion of the cost of the construction based on the relative benefit to the Township and its residents. The estimated construction cost to be paid by the Township is \$1,386,507. The Township has incurred \$900,000 on the construction project as of year end.

XI. Upcoming Accounting Changes

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pension). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009. Management is currently assessing the impact of this new accounting standard on the Township's financial statement for future reporting periods.

Required Supplementary Information

Davison Township

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Budgeted		Actual	Variance
	Original	Final	Amounts	with Final Budget
Revenue				
Property taxes	\$ 1,245,174	\$ 1,245,174	\$ 1,242,181	\$ (2,993)
Licenses and permits	115,625	115,625	111,254	(4,371)
Federal grants	166,870	166,870	122,722	(44,148)
State-share revenue	1,054,000	1,054,000	1,289,331	235,331
Local donations	55,000	55,000	67,646	12,646
Fines	130,000	130,000	84,817	(45,183)
Charges for services	248,525	248,525	346,199	97,674
Interest income	230,105	230,105	319,013	88,908
Other income:				
Special assessments	1,862,596	1,862,596	1,944,724	82,128
Miscellaneous	243,530	243,530	262,727	19,197
Total revenues	5,351,425	5,351,425	5,790,614	439,189
Expenditures				
Current:				
General government:				
General government	496,657	496,657	468,791	27,866
Supervisor	140,668	140,668	136,290	4,378
Clerk	222,787	222,787	209,309	13,478
Treasurer	132,320	132,320	119,104	13,216
Township hall and grounds	212,000	212,000	158,399	53,601
Assessing department	155,518	155,518	149,433	6,085
Legislative:				
Township board	97,451	97,451	74,262	23,189
Public safety:				
Police	2,205,385	2,205,385	2,100,886	104,499
Fire	304,177	304,177	286,071	18,106
Building inspection	365,586	365,586	258,873	106,713
Public works	2,110,164	2,110,164	1,899,234	210,930
Total expenditures	6,442,713	6,442,713	5,860,652	582,061
Net Change in Fund Balance	(1,091,288)	(1,091,288)	(70,038)	1,021,250
Fund Balance - Beginning of Year	7,910,116	7,910,116	7,910,116	-
Fund Balance - End of Year	\$ 6,818,828	\$ 6,818,828	\$ 7,840,078	\$ 1,021,250



Plante & Moran, PLLC

Suite 1A

111 E. Court St.

Flint, MI 48502

Tel: 810.767.5350

Fax: 810.767.8150

plantemoran.com

October 2, 2007

To Board Members
Davison Township
Davison, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Davison Township (Township) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Municipality's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies .

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

Accrual Adjustments

We provided significant assistance in identifying and posting accrual adjustments to the accounting records during this year's audit. Accruals represent any adjustments other than cash that impact the accounting records (state-shared revenues, special assessment receivable and deferred revenue). We are pleased to assist in this process – our auditors have expertise in accrual adjustments, and can generally assist in a very

cost-efficient manner. However, we bring this to your attention since it meets the above definition of a matter to be communicated.

Sewer and Water Receivable Reconciliation

During the year a comparison was prepared on a monthly basis between the Genesee County Water and Waste aged receivable report and the Township trial balance. The comparison indicated significant variances between the reports. Genesee County Water and Waste implemented new accounting software during the year which may be a cause of the discrepancy. We recommend the Township work with Genesee County Water and Waste to resolve the discrepancies and continue to investigate any differences as they occur.

Check received but not deposited

During our review of internal controls over daily deposits we noted that a check was received in the building department and held for a number of days before it was deposited. All checks should be deposited on the day they are received. The holding of checks is not the normal practice of the Township and effects the integrity of the internal system over receipts.

This communication is intended solely for the information and use of management, board members, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script, appearing to read "Peggy Haw Jury".

Peggy Haw Jury, CPA